February 20, 2012

EAGLE COMMUNITY CREDIT UNION

Ms. Mary Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on the NCUA's Proposed Rule on Loan Participation

Dear Ms. Rupp:

Thank you for providing us the opportunity to express our views on the Board's proposed changes to the loan participation rules. Loan participations have provided many credit unions with the unique opportunity to diversify loan portfolios, increase earnings and mitigate credit risk without the burden of increasing operating expenses that would be required to staff, service and market business loans to our members. Please do not misconstrue this as an admission that our credit union lacks the necessary expertise to originate and service member business loans as we have staff that have actively been involved in the origination and servicing of commercial loans, both secured and unsecured for much larger financial institutions and credit unions, as well as received certification from the Small Business Administration in the origination of Government Guaranteed loans. These staff members are fully engaged in other operating duties within our credit union and are unable to dedicate the time and attention required to operate a full scale member business lending department. While we agree with and already practice many of the recommendations made to improve participation loan policies, underwriting, participation agreements and ongoing loan monitoring we also feel that the recommended limits on the single originator and single borrower limits will have significantly adverse financial impact on Eagle Community Credit Union and actually give rise to increased risk. We feel that this will be the same for many small to medium size credit unions within our industry.

The NCUA's assessment that loan participations create a systemic risk to the share insurance fund has been found to be flawed based upon the information provided. Please refer to the comments filed by the California/Nevada Credit Union League and Evangelical Christian Credit Union for a complete analysis of the delinquency and loss exposure within the credit union system. Loan participations have become an integral part of many credit unions strategic plans as a means of maintaining loan volumes and generating interest income sufficient to reach net interest margins needed to maintain profitability.

As a purchaser of participation loans we are particularly concerned with the proposed regulations regarding the limitations on participations to a single borrower and single servicer/originator. Member business lending is all about relationships. Ongoing communication between the lender and borrower, periodic documentation and financial monitoring of the credit are keys to maintaining a good borrower-lender relationship. The same is true for credit unions purchasing loan participations. Maintaining regular communication with our originators, collecting ongoing documentation and continually assessing the strength of the credit and originator are all part of our internal processes that have resulted in building long lasting relationships with our chosen loan originators and servicers. Eagle Community Credit Union takes great pride in our underwriting, due diligence, ongoing monitoring and relationship management surrounding our participation lending program.

Limit on purchases from a single originator/servicer:

The NCUA's proposal to limit the amount of participation loans a credit union may invest in to 25% of net worth for any single originator would have an adverse affect on our credit union. Eagle Community Credit Union is a "well capitalized" credit union under NCUA regulations, however, the imposition of this limitation would significantly increase expenses and reduce impair the credit unions ability to obtain high quality loan participations.

- We estimate that to meet our strategic objectives in the coming year the credit union will need to double the number of originators that we have relationships with. The cost of managing these relationships is substantial as a result of our internal policies and procedures related to the initial amount of due diligence required to establish a relationship as well as ongoing monitoring.

- Transaction risk is increased as new originators are added due to the internal settlement requirements, reconciliation process changes and ongoing monitoring of loans.

- We seek to utilize participation loans as a method of mitigating interest rate and market risk on the credit unions balance sheet. Under the proposed cap the credit union would be precluded from participating in many small pools of loans with favorable cash flows and shorter loan terms. Originators selling participation interest in pools of small homogeneous loans such as auto loans require minimum participation investments to reduce servicing cost and maintain efficiencies.

- Within the credit union industry there are several third party loan servicers that have the technology and data platforms available to accurately and efficiently service member business loans. They provide loan servicing for multiple loan originators. By virtue of providing these services the potential participations that Eagle Community Credit Union could purchase are further limited by the servicing restriction.

- An increase in the number of loan servicer utilized to manage loan participations will increase operating cost, transaction risk and increase long term cost of loan maintenance and monitoring.

Limitation on participation from a single borrower:

While we acknowledge the risk associated with purchasing a significant interest in a loan to a single borrower or group of borrowers we feel that each loan must stand on its own merits. Included in the credit unions loan policies and procedures are the underwriting and due diligence requirements that must be met prior to any loan participation purchase. We feel that these policies are sufficient to ensure the credit union only engages in the purchase of high quality

participation loans. This is borne out by the fact that Eagle Community Credit Union has no delinquency or charge off loans in our loan participation portfolio. Prudent internal limits have been established to ensure that all loan participations are within Board approved guidelines and underwritten to credit union standards for each loan participation.
The arbitrary assignment of a limit on loans to a single borrower will only increase operating expenses as the credit union moves to fill the total dollar amount of loan participations required to meet its strategic objectives. The cost of underwriting, monitoring and servicing loan participations will increase as the number of participation loans purchased increase. While the NCUA seems to place a minimal cost to these operations we feel that they are much more extensive and ongoing in nature.

In summary, we agree with and have already addressed many of the issues included in the proposed changes to the regulation. Our concerns primarily are centered on the limitations proposed for loans per originator and single borrower limits. The purchase of participation loans places a significant emphasis on relationships. Knowing you participation partner, historical experience and ongoing monitoring build strong relationships. The initial due diligence process can be costly in terms of both time and expense, fostering these relationships once started, coupled with an ongoing monitoring system can reduce expenses, transaction risk and servicing cost.

The purchase of participation loans is not only about increasing loan volume and generating income. Participations are an effective way to mitigate interest rate and market risk embedded within a credit unions balance sheet. The imposition of these hard caps will significantly impair our credit unions ability to meet internal asset/liability risk objectives as well as increase cost and reduce earnings. It is not clear how these limits were established, however, it is clear that they will have a larger impact on small to medium sized credit unions than those with larger asset sizes.

We respectfully request that the Board reconsider revising current loan participation regulations and imposing any new restrictions until such time as the potential harmful effects on credit unions can be fully examined and understood.

Respectfully submitted,

Scott Rains
Chief Financial Officer
Eagle Community Credit Union